

SOMALIA

Recent developments

Table 1 2019

Population, million ^a	15.0
GDP, current US\$ billion	4.9
GDP per capita, current US\$	327.0
International poverty rate (\$ 1.9) ^b	69.0
Gini coefficient ^b	34.0
School enrollment, primary (% gross) ^b	33.0
Life expectancy at birth, years ^b	57.1

Sources: World Development Indicators (WDI), IMF & World Notes:

(a) Estimates based on 2013 population estimates by UNFPA and assumes an average annual population growth of

(b) Somali Poverty and Vulnerability Assessment Report (World Bank, 2019); Life expectancy for 2018 from WDI.

As Somalia faces headwinds from the triple crisis of the COVID-19 pandemic, desert locusts and drought, the economy has contracted by an estimated 1.5 percent in 2020. Poor households and small businesses have received lower remittances and sales revenues, while livelihoods generated from the service sector and agricultural production are under threat. While the economy is showing signs of resilience, both the urban and rural poor are expected to increase, with a heightened sense of vulnerability.

Somalia is facing a “triple crisis” of the COVID-19 pandemic, the locust infestation and floods that has ended several years of modest economic growth. The economy is expected to contract by 1.5 percent in 2020, compared with the pre-crisis forecast of 3.2 percent. COVID-19 containment measures have lowered consumption, particularly in urban areas, and reduced demand for services. As the services sector is the largest employer, accounting for close to 75 percent of employment for youth and women, this has resulted in job losses in both formal and informal segments of the economy. The global downturn curtailed remittances from Somalia’s large diaspora in the first half of 2020 compared with the previous year. Small and medium enterprises were particularly affected, as remittances fell by over 17 percent in the second quarter. Meanwhile the floods and desert locusts continue to threaten agricultural production and exacerbate displacement especially among the rural poor. Approximately 3.5 million people are estimated to be food insecure and in need of urgent humanitarian assistance, while close to 0.5 million were displaced by floods by the third quarter of 2020.

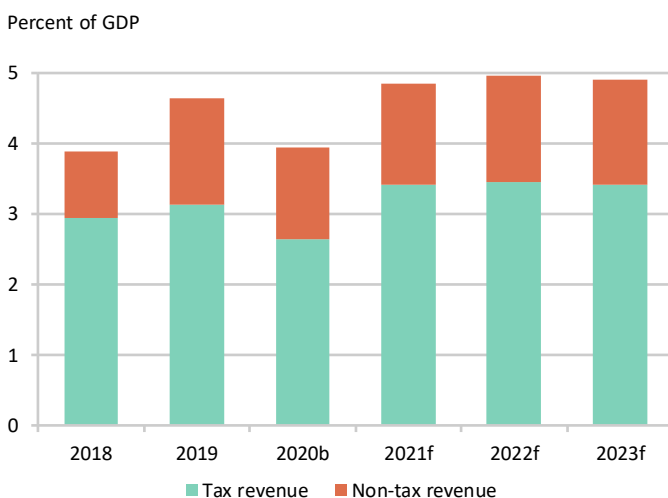
Despite the challenging context, the economy is showing signs of strengthening resilience. Prices in Somalia have remained relatively stable, as volatility has been contained by a largely dollarized economy, with notable reductions in fuel

prices in line with falling global oil prices. As Somalia has limited manufacturing and productive capacity, the country remains reliant on imports for necessities, including food items. Total imports increased by 3 percent in the first half in 2020 (year on year) as firms adjusted their trading routes amidst disruptions to global supply chains. However, food imports declined by 15 percent, raising concerns over food insecurity. Exports fell by 25 percent in the first half of 2020, largely due to dwindling demand for Somali agricultural products, with adverse consequences for households engaged in livestock.

The triple crisis has put new pressure on public finances. It interrupted the trend of steadily improving tax collection. Revenue collected by the federal government during January–July 2020 was 5 percent lower than in the same period of 2019 and 12 percent below the 2020 target set in January, due mainly to effects of COVID containment but also in part to tax relief measures. The federal government’s 2020 supplemental budget, passed in August, appropriated a substantial expansion of cash transfers to households hurt by drought and locusts, along with other new social spending, and increased grants to subnational governments to help them adjust to the crisis.

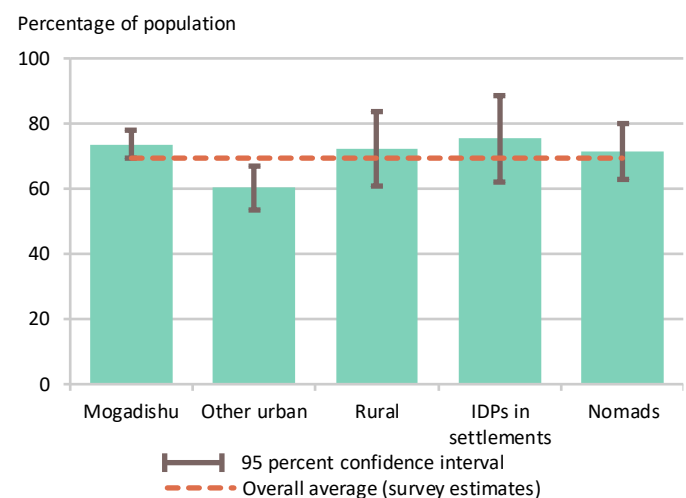
The triple shocks have exacerbated already dire poverty and social conditions. The combined effect of these shocks has had negative impacts on household welfare and food security, particularly affecting the 69 percent of Somali households that live below the poverty line and the 10

FIGURE 1 Somalia / Domestic revenue sources



Sources: Federal Government of Somalia (FGS), World Bank & IMF.

FIGURE 2 Somalia / Actual poverty rates by population group



Source: World Bank.

percent of households that hover slightly above. Transmission channels include reduced incomes, poor agricultural harvest, and lower access to remittances and family assistance that would normally buffer the shocks. Without the needed health capacity to manage a public health emergency, social protection systems to cope with crises, and family assistance to ease the financial stresses, many Somali households face a desperate situation.

Outlook

The economy is expected to rebound during the last quarter of 2020, grow by 2.9 percent in 2021 with the easing of the global pandemic, and enjoy a modest growth acceleration as policy reforms take root. Economic activities have already shown signs of resurging, following the lifting of containment measures. Remittances inflows are projected to remain at over 30 percent of GDP. Meanwhile, lower prices of fuel are projected to continue providing a boost to households and businesses, who face one of the highest prices of electricity in the world.

Fiscal reforms are likely to strengthen Somalia's public finances. Tax and customs administration reforms should

enable domestic revenue to regain an upward trajectory in 2021. Stronger financial management controls should enable the government to create fiscal space for investments. The increase in fiscal transfers in the 2020 supplemental budget could improve intergovernmental cooperation and potentially increase political stability.

Already existing widespread poverty and vulnerability are likely to deteriorate due to the multiple shocks. The COVID-19 crisis is likely to affect the urban poor and those working in the informal sector and livestock value chain, while the floods and desert locusts will affect the rural poor and nomadic households. While the number of people living below the poverty line is likely to increase, rapid action has been taken to expand social safety nets.

Risks and challenges

As Somalia prepares for elections, currently slated for early 2021, there is a risk that heightened political tensions over the electoral model (which does not provide for direct elections in its present form) could provide an opportunity for insurgents to increase their foothold. On the upside, a continued commitment to

electoral processes complemented by dialogue with the Federal Member States could enhance stability, particularly if discussions surrounding the Provisional Constitution progress.

Further waves of Covid-19 and accompanying mitigation measures could result in a more prolonged than expected economic slump, which could reduce remittance inflows, depressing household consumption and activities of smaller enterprises. Somalia's exposure to climatic shocks remains a source of vulnerability, particularly in rural areas, as ongoing efforts to strengthen water management are only likely to bear fruit in the medium-to-long-term.

Desert locusts continue to pose a risk to the *Gu* season cereal and livestock production and may also pose a threat to the October–December *Deyr* season production, increasing the risks for livelihood insecurity and agricultural production deficits in many parts of the country. In urban areas, there is a greater risk of rising informality and job losses as demand for services falls. Any slowdown in implementation modalities for the safety net expansion could risk exacerbating the situation. Responding to these challenges, the government is creating a unified social registry to build a national database of the poor and vulnerable alongside the expansion of cash transfers.

TABLE 2 Somalia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020e	2021f	2022f	2023f
Real GDP growth, at constant market prices	1.4	2.8	2.9	-1.5	2.9	3.2	3.4
CPI Inflation, annual percentage change	6.1	3.2	3.1	3.0	2.5	2.2	2.2
Current account balance, % of GDP	-9.8	-7.5	-10.5	-12.8	-12.9	-12.9	-13.2
Trade balance, % of GDP	-86.7	-84.8	-83.0	-91.4	-86.8	-88.2	-85.0
Private remittances, % of GDP	31.6	31.4	31.9	31.4	31.0	31.4	30.8
Official grants, % of GDP	46.1	46.6	41.3	47.9	43.7	44.6	41.6
Fiscal balance, % of GDP^a	0.1	0.1	0.5	0.0	0.7	1.1	0.6
Domestic revenue, % of GDP	3.2	3.9	4.6	4.1	4.6	5.0	5.6
External grants, % of GDP	2.8	1.8	2.2	8.3	6.1	7.4	8.0
Total expenditure, % of GDP	5.9	5.7	6.3	12.4	10.1	11.3	12.9
Compensation of employees, % of GDP	2.8	3.0	3.3	4.7	4.8	5.1	5.5

Source: World Bank (2020) and IMF (2020).

Notes: e = estimate, f = forecast, (a) Federal Government of Somalia (FGS).